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June 14, 1996

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Federal Communications Commission
Office of Secretary

EX PARTE

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

RE: Ex Parte Notice - CC Docket No. 96-45

Dear Mr. Caton;

On June 14, 1996, John Hunter and Porter Childers representing the United States Telephone Association (USTA) met with Rafi Mohammed, Jonathan Reel, Gary Seigel, Pamela Szymczah, Alex Belinfante, Bob Loube, Ted Burmeister and David Krech of the Common Carrier Bureau, to discuss USTA's position regarding the issues in the Federal-State Joint Board Universal Service proceeding. The attached material was the basis for the presentation and discussion.

The discussion was consistent with USTA's comments and reply comments on file in this proceeding.

Due to the late adjournment of the meeting, two (2) copies of this notice are being submitted to the Secretary of the FCC on the following day, in accordance with Section 1.1206(a)(1) of the Commission's rules. Please include it in the public record of this proceeding.

Sincerely,

Porter E. Childers

Porter E. Childers
Executive Director
Legal and Regulatory Affairs

cc: Federal-State Joint Board Service List

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USTA
Universal Service

CC Docket 96-45

USTA

Telecommunications Act of 1996

- Requires a universal service policy of quality service at just, reasonable and affordable rates
- Universal service support required to be specific, predictable and sufficient
  - Support should be explicit
  - All eligible telecommunications carriers may receive universal service support
- Public policy principles to preserve and advance universal service envision federal and state involvement

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Additional Principles

- Reliance upon market forces, wherever feasible, to:
  - Establish reasonable prices
  - Define universal services
- Explicit support mechanisms should be competitively neutral
  - All telecommunications carriers contribute same level of universal service support
  - Surcharge on retail revenue to fund universal service support

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States' Role

- Establish service area for which eligible telecommunication carrier designation is authorized
- Establish specific, predictable and sufficient state universal support mechanisms based upon the following concepts:
  - Establish affordability benchmark to ensure rates are not only affordable, but reasonably comparable and recognize calling scopes
  - Target high cost areas by establishing smaller geographic areas for non-rural telephone companies
  - High cost funding provided for costs above the affordability benchmark
  - Support should be explicit. Current implicit support should be removed from rates on a revenue neutral basis
  - All telecommunications carriers operating within the state should contribute to the funding mechanism
  - Contributions should be through surcharges based on retail telecommunications revenues
- Address subscribership issues

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Universal Service Definition

- National universal service definition will be multi-jurisdictional in nature
  - Dual regulatory system will allocate cost of providing universal service to the federal and state jurisdictions
  - FCC action and state commission action will be needed to ensure preservation of universal service
- Universal service should be categorized into core universal services and special services
  - Core services will be available to all consumers in all regions of the nation
  - Special services are those additional services that will be available to qualifying schools, libraries and public health care institutions

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Universal Service Definition (Continued)

- Core universal services should initially include:
  - Voice grade access to public switched network
  - Touch tone
  - Single party residence & business service
  - Access to emergency services
  - Access to basic operator services
  - Standard white page directory listing
  - Access to basic local directory assistance
- Grace period should be established to permit any upgrades necessary to satisfy the core universal service definition
- Definition of core services should evolve as the market place changes
  - Periodic review should consider technology changes, degree of service deployment, consumer demand and whether support is required to promote universal availability

Separate Funding Mechanisms Should Be Established to Provide Support for:

- Core set of universal services in rural, insular, high cost and unserved areas
- Special services for schools and libraries
- Special services for rural health care providers
- Core services to low income customers

Affordable Service

- Legislation adds "affordable" to universal service goal
- Affordability refers to customers' ability to bear cost of universal service
- Customers' view of the cost of universal service must reflect the total charge for the universal service definition
  - Total universal service charge is comprised of federal and state charges due to multi-jurisdictional nature of universal service

Affordable Service (Continued)

- Universal service expenditure, expressed as a percent of median household income, provides a basis for determining affordability in comparison with other household expenditures

	% Median HH Income
Gasoline & Motor Oil	3%
Residential Energy	4%
Housekeeping Supplies	1.5%
Total Telecommunications	2-2.5%
Basic Local Exchange	.7%

- 1% of national median HH income, adjusted downward to recognize areas with smaller calling scopes, represents a reasonable and affordable total expenditure level for universal service
  - Household expenditures for total telecommunications would remain 2-2.5% of median household income

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Affordable Service (Continued)

- The FCC should establish an interstate affordability benchmark and states should establish intrastate affordability benchmarks, which together will result in the affordable level of household expenditures for universal service
    - The interstate affordability benchmark should be $6.00 which is equivalent to the nationwide average interstate loop cost and should replace the existing End User Common Line (EUCL) charge caps
    - The intrastate affordability benchmark will be the difference between the affordable household expenditure level for universal service and the interstate affordability benchmark

Affordable Service (Continued)

- LECs should be permitted to rebalance EUCL prices over geographic areas smaller than a study area
  - Setting EUCL prices to areas smaller than a study area means customers in low cost areas will no longer be required to implicitly support high cost areas
- EUCL prices should be set at a level equal to interstate loop costs for the service area or the new interstate affordability benchmark, whichever is lower
- Interstate universal service costs exceeding the interstate affordability benchmark would be recovered through an explicit support mechanism

Universal Service Area	Interstate Loop Cost per Line	Proposed EUCL	Explicit Support per Line
A	$1.50	$1.50	$0
B	$4.00	$4.00	$0
C	$6.25	$6.00	$.25
D	$20.00	$6.00	$14.00

Affordable Service (Continued)

- An affordability benchmark establishes a maximum rate level to reflect affordable universal service
- Interstate affordability benchmark ensures reasonable comparability between rural and urban areas
  - Use of nationwide average includes rural and urban areas in calculation of the interstate benchmark level
  - EUCL prices may differ across geographic areas but will not exceed the interstate affordability benchmark
  - Rural areas receive the benefit of a lower EUCL price by including urban areas in the calculation of the interstate affordability benchmark

Affordable Service (Continued)

- USF and Weighted DEM should be continued only for rural telephone companies as an additional measure to ensure affordability
  - USF and Weighted DEM ensure that affordable prices are delivered to high cost areas served by rural telephone companies that lack economies of scale and scope
- USF and Weighted DEM apply in addition to the interstate funding for interstate loop costs that exceed the interstate affordability benchmark

Universal Service Costs

- Universal service costs should be based upon embedded costs
  - Reflects actual costs incurred to provide universal service; these costs are based upon actual investments already placed to meet universal service obligations
  - Costs associated with the under-depreciated embedded plant should be identified and addressed
- The geographic area over which costs should be measured for calculating universal service support should be:
  - No larger than a wire center for non-rural telephone companies
  - Remain study area for rural telephone companies unless they opt to deaverage support below the study area

TSLRIC Is Inappropriate for Determining Universal Service Support Requirements

- Inconsistent with the Act because it fails to provide sufficient support
- TSLRIC does not identify all the costs of providing universal service
  - Ignores some investments to fulfill carrier of last resort requirements
  - Ignores shared and common costs that are not incremental to any one service
- Reduces incentives for future capital deployment

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Calculating Interstate High Cost Support

- Interstate high cost support will be required where the costs to provide universal service exceed the interstate affordability benchmark
- In non-rural telephone company areas, other eligible telecommunications carriers should receive universal service support per line based on the incumbent's costs
  - Incumbent's high cost support per line is calculated once and then frozen until the definition of core universal service changes
- In rural telephone company areas, if multiple eligible telecommunications carriers are determined to be in the public interest, universal service support should be based upon their own cost
  - High cost support per line would be calculated annually by each eligible telecommunications carrier

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Unserved Areas

- Unserved areas exist because current revenue recovery mechanisms (prices and support) are not sufficient to recover costs of providing service
- Voluntary bidding process
- Carrier submitting lowest bid to serve area declared area's eligible carrier
- Separate universal service area for unserved areas

Explicit Interstate High Cost Fund

- Interstate loop costs above interstate affordability benchmark ($6.00)
- Existing USF and Weighted DEM for rural incumbent LECs
- Existing USF and Weighted DEM for non-rural LECs frozen and eliminated at end of four-year transition period
- Support for unserved areas

Universal Service Funding

- Competitively neutral funding
- Explicit surcharge based upon interstate retail telecommunications revenues
- All carriers providing interstate telecommunication services responsible for collecting surcharge on retail revenues from their end users
    - Explicit recovery from end users required to prevent implicit funding through prices

Transition Plan

- USTA's interstate universal service plan should be implemented over a four year transition period
- Implicit support should be eliminated through price rebalancing and explicit support on a revenue neutral basis
- EUCL prices should be rebalanced over the four year transition period
- Interstate CCL should remain in place during the transition period
  - As EUCL prices are rebalanced, interstate CCL will be adjusted to recover the difference between EUCL price and the interstate CCL
  - Interstate CCL will decrease as EUCL prices are rebalanced over the four year transition period

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Transition Plan (Continued)

- LTS should remain in place during the transition period for pooling LECs
  - LTS should recover the difference between the nationwide average interstate CCL price calculated during the transition period and the interstate CCL price for pooling LECs
  - LTS will decrease as EUCL prices are rebalanced and interstate CCL decreases over the four year transition period
- Funding for interstate costs that exceed the interstate affordability benchmark will be implemented at initialization of the plan
- USF and Weighted DEM for non-rural telephone companies should be frozen and eliminated at the end of the four year transition period

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Transition Plan (Continued)

	Year 1	Year 2	Year 3	Year 4
Total Interstate BFP Costs	$10,770M	$10,770M	$10,770M	$10,770M
Transitional EUCL Cap	$4.50	$5.00	$5.50	$6.00
Total EUCL Revenues	6,417M	6,719M	6,981M	7,211M
Total Interstate CCL Rev.	734M	435M	211M	0
Total LTS	63M	41M	20M	0
Total Interstate High Cost Support	3,559M	3,559M	3,559M	3,559M
Total USF Support	735M	735M	735M	735M
Total DEM Weighting Support	311M	311M	311M	311M
Total Interstate High Cost Fund	4,605M	4,605M	4,605M	4,605M

Customer Benefits

- Economically efficient pricing
- Reduced interstate toll prices
  - Pass through of CCL elimination
  - Pass through of USF and Weighted DEM elimination for non-rural carriers at the end of four year transition period
- Reduced EUCL charges for customers in low cost wire centers
  - 48% of access lines are in wire centers with interstate loop costs less than the current EUCL caps
- Customers in high cost wire centers ensured reasonably comparable and affordable rates

Customer Benefits (Continued)

- Elimination of implicit support
- More targeted support
- Competitively neutral
- Meets legislative mandate that support be specific, predictable and sufficient